The Royal Bank

of Canada

Annual Statement

1988

FINANCIAL HIGHLIGHTS

	1988	*1987**	*1986*	*1985*	*1984*
Earnings Data *(For the year ended October 31)*					
Net income *($ millions)*	**$ 712**	$ 512	$ 452	$ 454	$ 352
Return on assets	**.68%**	.51%	.46%	.49%	.41%
Return on equity	**17.2%**	11.5%	10.9%	12.4%	10.3%
Balance Sheet Data *(As at October 31) ($ millions)*					
Total assets	**$110,054**	$102,170	$99,607	$96,017	$88,003
Loans	**77,781**	69,293	65,934	63,831	59,014
Deposits	**88,199**	85,811	84,253	83,543	77,588
Debentures	**2,000**	1,521	2,068	1,749	1,336
Shareholders' equity	**5,087**	4,364	4,662	4,168	3,741
Capital Adequacy Ratios *(As at October 31)*					
Basic capital ratio	**4.3%**	3.7%	4.2%	3.7%	3.6%
Base capital equivalent ratio	**4.8%**	4.1%	4.7%	4.2%	4.0%
Adjusted total capital ratio	**5.6%**	5.0%	5.8%	5.3%	5.0%
Common Stock Data *(For the year ended October 31)*					
Earnings per share					
Basic	**$ 5.05**	$ 3.78	$ 3.68	$ 3.93	$ 3.17
Fully diluted	**4.83**	3.62	3.46	3.64	3.00
Dividends per share	**2.08**	2.02	2.00	2.00	2.00
Share Price: High	**36.50**	38.88	35.25	32.38	35.38
Low	**26.13**	25.63	27.50	27.50	24.88
Close – October 31	**36.00**	27.75	33.25	31.50	28.38
Book value – October 31	**31.16**	28.40	34.14	33.10	30.85
Number of: *(As at October 31)*					
Common shareholders	**87,613**	88,814	89,752	89,947	79,085
Common shares outstanding *(thousands)*	**132,650**	118,005	106,522	99,427	92,873
Employees *(full-time equivalent)*	**46,096**	42,839	43,229	41,951	41,888
Branches	**1,560**	1,517	1,496	1,494	1,510
Automated banking machines	**1,628**	1,336	1,170	898	712

**Earnings results for 1987 are expressed before the special provision for losses on country lending. After the special provision, the Bank reported a net loss of $288 million, or $3.20 per common share.*

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Notice to Shareholders

The annual meeting of the Common Shareholders of the Bank will be held in Le Grand Salon, Queen Elizabeth Hotel, in the City of Montreal, on Thursday the 12th day of January 1989, at 10:30 a.m.

The annual report, and the proceedings of the annual meeting, will be sent to all shareholders of the Bank in due course.

Dear Shareholder,

The past year stands as one of the most significant in the Royal Bank's 120-year history, in terms of both our financial performance and the scope of our operations.

Measured by virtually every key indicator, the Bank's 1988 results were the strongest in years. Net income was $712 million, an increase of 39% from a year ago, excluding last year's $1.4 billion ($800 million after tax) special provision for losses on country lending. Earnings per share, on a fully diluted basis, were $4.83, up $1.21 from 1987. Similarly, return on assets and return on equity were substantially higher.

These strong results were achieved despite a further $360 million addition to the general provision for losses on country lending, which now totals $2.3 billion or 45% of related exposure. This conservative provisioning level reflects our commitment to further insulating the Bank's future earnings from adverse economic or political developments within troubled borrower countries.

To a large extent, the Bank's financial turnaround in 1988 reflects a major improvement in the quality of our business loan portfolio. Loan losses on specific accounts fell by over one-half, while net non-accrual loans declined by more than a third. In particular, the Bank's exposure to weak borrowers in the energy sector was reduced significantly through a combination of asset sales, restructurings, and further provisioning.

Also contributing to our improved results was a commendable performance by our retail banking network, reflecting, in part, a strong Canadian economy. Despite a highly competitive environment, impressive gains were registered in consumer lending, residential mortgages, and personal deposits.

With regard to operating costs, the Bank's expense management program continued to yield sizeable benefits. On a year-over-year basis, excluding RBC Dominion Securities, expense growth was 4.5% – the lowest in 5 years.

During 1988 we also took significant steps to broaden our business base. Most notably, and in response to regulatory changes in Canada's financial services industry, we acquired the country's leading securities dealer, Dominion Securities Limited. In addition, the Bank gained an important foothold in the field of investment management through the purchase of United Bond and Share Limited. We are highly encouraged about the new opportunities these strategic initiatives will create for both the Royal Bank and its customers.

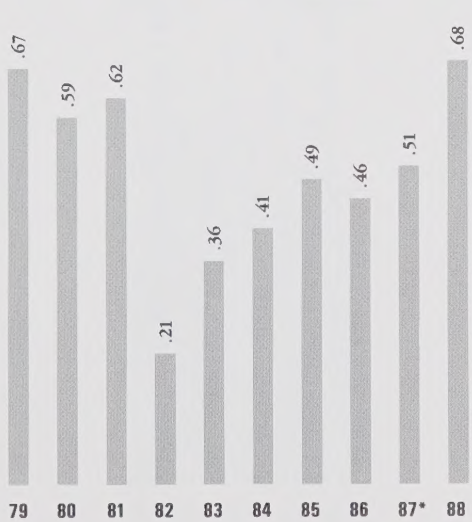
As we progress from being Canada's largest bank to becoming the country's largest and most profitable financial services enterprise, we will build on the accomplishments of this past year. We will continue to enhance our domestic delivery network, making it more responsive to the diverse needs of our 7 million customers. We will continue, through our expense management program, to redeploy human and financial resources toward the customer service area. Finally, we will continue to improve our business mix, while maintaining the highest credit quality standards.

These factors, coupled with our large base of core consumer deposits and strong capital position, give us good reason to be optimistic about the future of the Royal Bank as we enter the 1989 fiscal year.

Sincerely,

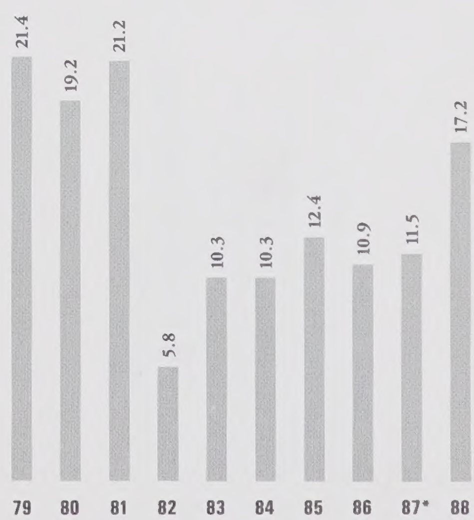
ALLAN R. TAYLOR
Chairman and Chief Executive Officer
December 6, 1988

Return on Assets
%



**before special provision for losses on country lending*

Return on Equity
%



**before special provision for losses on country lending*

EARNINGS OVERVIEW

The Royal Bank of Canada's net income for fiscal 1988 was $712 million, an increase of 39% from last year's $512 million. For comparative purposes the Bank's 1987 results exclude the $1.4 billion ($800 million after income taxes) special provision for losses on country lending, which resulted in an overall net loss last year of $288 million or $3.20 per common share. In 1988, fully diluted earnings per share were $4.83, up $1.21 from 1987. Return on average assets was 0.68%, an increase of 17 basis points from last year. Return on common shareholders' equity was 17.2%, compared to 11.5% in 1987.

It should be noted that earnings figures for 1987, as well as for prior years, have been restated in accordance with new accounting rules for loan losses. In addition, the Bank's 1988 results reflect the consolidation of RBC Dominion Securities, the Royal Bank's investment banking subsidiary, which was acquired in March 1988.

Earnings from Domestic operations totalled $701 million, rising $300 million from last year. At .92%, Domestic return on assets was up 33 basis points from 1987. A sharp $355 million reduction in loan losses, largely stemming from an improvement in the Bank's energy portfolio, and strong results from retail banking were the main reasons behind the better performance.

Earnings from International operations totalled $11 million, compared to $111 million in 1987, while return on International assets declined to .04% from .35%. In fiscal 1988, the Bank received and included in income $133 million of interest from Brazil, compared to no receipts last year. In addition, provisions for losses on specific accounts were $155 million lower in 1988.

These positive factors, however, were more than offset by a $360 million addition to the general provision for possible losses on loans to a designated group of troubled country borrowers, thus raising the Bank's cumulative general provision at October 31, 1988 to $2.3 billion or 45% of related exposure.

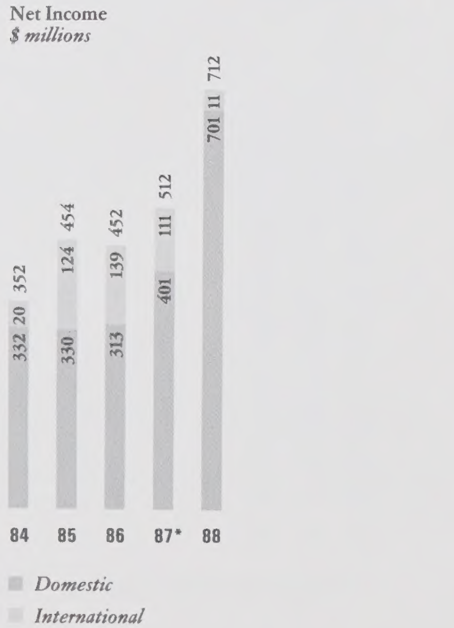
It should be noted that results for 1987 had excluded that year's addition to the general provision and had included a $43 million after-tax gain on the sale of certain real estate holdings. Had no additions been made to the general provision in 1988, International earnings would have been $203 million, representing a return on assets of .73%.

Subsequent to year-end 1988, Brazil and its major creditors signed a refinancing agreement enabling that country to fully meet its interest obligations. As a result of this accord, the Royal Bank received $61 million in past due interest from Brazil covering the period from February to October of 1987. This amount, to be recorded as income in the first quarter of 1989, will be partially offset by approximately $31 million of additional general provisions as a result of new advances to Brazil.

ASSET GROWTH

Total assets at October 31, 1988 were $110.1 billion, $7.9 billion or 8% higher than a year ago. The acquisition of RBC Dominion Securities accounted for $3.7 billion of the increase. Domestically, continued growth in consumer spending and a strong housing market, particularly in central Canada, led to a $1.0 billion increase in consumer instalment loans and a $3.4 billion rise in mortgage balances. Also, business loans and bankers' acceptances registered healthy increases of $3.9 billion and $2.3 billion respectively, reflecting corporate borrowers' preference for bank financing after the stock market downturn of October 1987.

Partially offsetting these increases was a planned reduction in certain lower-yielding liquid assets. The Bank reduced its holdings of Government of Canada securities by $700 million and the level of its deposits with other banks by $4.7 billion. At year-end 1988, the Bank's liquid assets, consisting largely of cash resources and securities, represented 18% of total assets, a level considered to be conservative.



*before special provision for losses on country lending

*before special provision for losses on country lending

NET INTEREST INCOME

Net interest income for 1988, on a taxable equivalent basis, was $3,241 million, an increase of $245 million or 8% from 1987. This represented 3.11% of average assets, 13 basis points higher than in 1987.

Domestic net interest income rose $153 million to $2,642 million, reflecting growth in consumer and business loans, as well as reduced non-accrual loans. These factors were partly offset by lower securities gains during the year.

International net interest income increased $92 million to $599 million in 1988. This was due in large measure to the previously-mentioned interest receipts from Brazil of $133 million, partially offset by a $16 million reduction in interest income from Argentina, stemming from the classification to non-accrual status in July 1988 of $420 million in exposure to that country. Overall, the International margin rose 56 basis points from last year to 2.15%.

OTHER INCOME

Other income amounted to $1,390 million, up $219 million or 19% from 1987. Of this increase, $110 million was attributable to higher securities commissions, almost all of which were generated by RBC Dominion Securities. In addition, solid growth was registered in revenues from foreign exchange, deposit account transactions and card services, largely reflecting higher business volumes.

NON-INTEREST EXPENSES

In 1988, the Bank continued its commitment to keep a tight rein on expenses and to rationalize its operations where appropriate. While total non-interest expenses rose 10% from 1987, expenses grew by 4.5%, excluding the impact of RBC Dominion Securities. This 4.5% increase compares favourably to year-over-year growth rates of 7.1% in 1987 and 11.5% in 1986.

Also, excluding RBC Dominion Securities, staff costs increased only 5%. This performance reflects the effectiveness of the Bank's expense management program, which aims to streamline administrative functions while increasing the number of customer service positions. With the objective of better serving its clients, the Bank continued to selectively expand its branch and automated banking machine network. Depreciation of fixed assets and computer rent and maintenance were the major items contributing to a 10% growth in premises and equipment costs. Other expenses, consisting of a number of miscellaneous business costs, remained virtually unchanged from 1987.

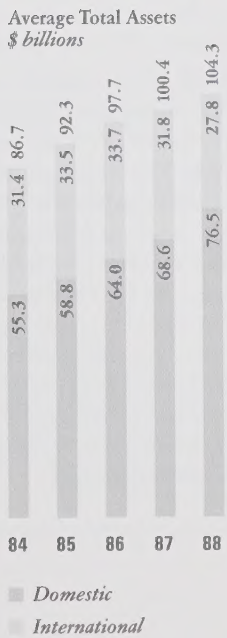
Overall, the Bank remains committed to eliminating non-essential overhead, improving productivity through the application of new technologies, and emphasizing pay-for-performance salary policies.

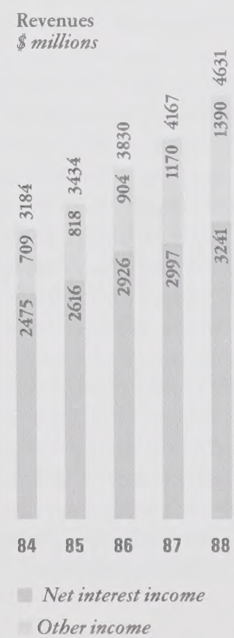
INCOME TAXES

As shown in Note 3 to the Financial Statements, the Royal Bank's total income taxes amounted to $581 million in 1988, compared to a recovery of $298 million in 1987.

The principal reason for the significant change in income taxes was the absence, in 1988, of the special provision for losses on country lending, which had resulted in a $600 million income tax recovery a year ago. Also contributing to higher income taxes in 1988 were stronger underlying earnings and a reduction in the amount of tax-exempt income.

In addition, in 1988 the Bank was subject to approximately $140 million in other direct and indirect taxes, comprised of business and capital taxes, property taxes, and the cost of maintaining interest-free cash reserves with the Bank of Canada.





FIVE YEAR HIGHLIGHTS OF EARNINGS (AS A % OF AVERAGE ASSETS)

(taxable equivalent basis)	*1988*	*1987**	*1986*	*1985*	*1984*
Net interest income	**3.11%**	2.98%	2.99%	2.83%	2.85%
Provision for loan losses	**(.72)**	(.90)	(1.00)	(.74)	(.86)
	2.39	2.08	1.99	2.09	1.99
Other income	**1.33**	1.17	.93	.89	.82
	3.72	3.25	2.92	2.98	2.81
Non-interest expenses	**(2.44)**	(2.32)	(2.22)	(2.11)	(2.08)
	1.28	.93	.70	.87	.73
Income taxes & minority interest	**(.60)**	(.42)	(.24)	(.38)	(.32)
Return on assets	**.68%**	.51%	.46%	.49%	.41%

**before special provision for losses on country lending*

CREDIT QUALITY REVIEW

Through most of this decade, the Bank's financial performance was constrained by high levels of loan losses and non-accrual loans. However, in many respects, fiscal 1988 marked the end of this difficult period as the Bank's business loan portfolio strengthened considerably. In particular, the Bank's energy portfolio, which accounted for a large portion of loan losses and non-accrual loans in prior years, is now much smaller and healthier as a result of sales, restructurings and write-offs of problem accounts.

With respect to Third World debt, the Bank continued to build its general provision for losses on country lending to 45% of related exposure, the maximum level permitted by the Superintendent of Financial Institutions. The Royal Bank is committed to reducing its net exposure, measured as a percentage of common equity, to this group of countries.

While Brazil resumed interest payments on its external bank debt in 1988, economic difficulties in Argentina resulted in the classification to non-accrual status of $420 million of the Bank's exposure to that country.

Non-accrual Loans

At October 31, 1988, non-accrual loans, net of the related allowance for credit losses, totalled $1,027 million, a reduction of $615 million or 37% from year-end 1987. The most noticeable improvement occurred within the Bank's Domestic operations. The resolution of numerous problem energy accounts, together with additional specific provisions for loan losses, contributed to a reduction in Domestic net non-accrual loans from $1,146 million at October 31, 1987 to $734 million at year-end 1988.

International net non-accrual loans fell from $496 million in 1987 to $293 million. At fiscal year-end, non-accrual loans related to the Bank's sovereign loan exposure, before general provisions, amounted to $1.9 billion, consisting mainly of Brazilian and Argentine debt. The classification during 1988 of $420 million in Argentine loans to non-accrual status had no impact on the Bank's reported net non-accrual loan balances as the Bank's cumulative 38-country general provision exceeded the gross amount of non-accrual loans associated with these borrowers.

In 1988, the net yield on the Bank's net non-accrual loan portfolio was 17.3% compared to 1.3% in 1987. Contributing to the exceptionally high yield in 1988 were the $133 million of Brazilian interest previously referred to, and $57 million of past-due interest from domestic borrowers.

Loan Losses

At the beginning of fiscal 1988, the Superintendent of Financial Institutions issued new accounting rules with regard to loan losses. The provision for loan losses, which is charged to income, now represents the actual amount of additional specific and general provisions made to cover expected loan losses, and is no longer based on a five-year moving average. Prior periods' results have been restated in accordance with the new rules.

In 1988, the Royal Bank's total provision for loan losses was $750 million. Of this amount, $390 million represented provisions for losses on specific accounts, compared to $900 million in 1987. This substantial decline reflects a major improvement in the Bank's Domestic loan portfolio, particularly in the energy sector. Also included in the provision for loan losses was a $360 million addition to the Bank's general provision for losses on country lending, bringing the cumulative general provision to $2.3 billion at October 31, 1988. The general provision now represents 45% of the Bank's $5.0 billion exposure to the designated group of 38 countries – the maximum percentage permitted by the Superintendent of Financial Institutions.

Loan losses within the Bank's Domestic operations totalled $320 million, versus $675 million in 1987. Excluding the $360 million addition to the general provision, International loan losses amounted to $70 million compared to $225 million in 1987.

CAPITAL FUNDS

The Bank's total capital funds, which comprise common and preferred shareholders' equity and subordinated debentures, amounted to $7.1 billion at October 31, 1988, representing a $1.2 billion or a 20% increase from a year ago. Significantly stronger earnings contributed to a substantial $365 million of internally-generated capital. Also, the Bank raised approximately $416 million of new common equity – $256 million in connection with the acquisition of Dominion Securities Limited, $112 million through the Royal Bank Shareholder Dividend and Share Purchase Plan and $48 million from the conversion of preferred shares. In addition, the Bank issued $572 million of debentures during the year. This increase was partially offset by $93 million relating to translation adjustments on U.S. dollar-denominated debentures and redemptions of debentures.

QUARTERLY HIGHLIGHTS OF EARNINGS (AS A % OF AVERAGE ASSETS)

(taxable equivalent basis)	*Q4 1988*	*Q3 1988*	*Q2 1988*	*Q1 1988*	*Q4 1987*	*Q3* 1987*	*Q2 1987*	*Q1 1987*
Net interest income	3.14%	3.27%	3.10%	2.92%	3.04%	2.95%	3.05%	2.92%
Provision for loan losses	(.38)	(.83)	(.93)	(.76)	(.88)	(.89)	(.93)	(.89)
	2.76	2.44	2.17	2.16	2.16	2.06	2.12	2.03
Other income	1.39	1.40	1.28	1.25	1.15	1.37	1.16	.99
	4.15	3.84	3.45	3.41	3.31	3.43	3.28	3.02
Non-interest expenses	(2.53)	(2.49)	(2.41)	(2.34)	(2.38)	(2.30)	(2.40)	(2.20)
	1.62	1.35	1.04	1.07	.93	1.13	.88	.82
Income taxes & minority interest	(.81)	(.62)	(.46)	(.47)	(.42)	(.52)	(.40)	(.37)
Return on assets	.81%	.73%	.58%	.60%	.51%	.61%	.48%	.45%

ADDITIONAL INFORMATION

	Q4 1988	*Q3 1988*	*Q2 1988*	*Q1 1988*	*Q4 1987*	*Q3* 1987*	*Q2 1987*	*Q1 1987*
Earnings per share								
Basic	$1.55	$1.35	$1.03	$1.12	$.94	$1.16	$.81	$.87
Fully diluted	1.49	1.28	.99	1.07	.92	1.09	.79	.82
Average shares outstanding *(thousands)*								
Basic	131,786	130,489	120,060	118,905	117,749	117,077	116,373	107,518
Fully diluted	142,929	145,006	138,815	137,661	136,534	135,868	134,994	134,243
Shares outstanding *(thousands)*								
End of period	132,650	131,109	129,444	119,404	118,005	117,259	116,553	115,948
Return on equity	20.0%	18.0%	14.4%	15.7%	13.4%	13.2%	9.8%	9.9%
Book value per share	$31.16	$30.13	$29.32	$28.97	$28.40	$27.85	$34.37	$34.10
Common share price – High	$36.50	$32.75	$29.50	$29.50	$36.63	$36.38	$38.88	$37.50
– Low	30.88	26.75	26.13	26.25	25.63	31.75	32.75	31.88
– Close	36.00	32.63	27.88	27.38	27.75	35.75	34.63	37.00

**before special provision for losses on country lending*

During 1988, the central banks of twelve major industrialized countries, including Canada, reached a final agreement to adopt a standardized risk-based capital measurement system. Accordingly, beginning November 1, 1989, Canadian banks will be required to report capital ratios which take into account the relative risk of balance sheet assets and off-balance sheet activities. Banks will be required to attain a Total capital ratio of 8.0% by year-end 1992, at least half of which will have to be in the form of Tier I capital, essentially comprised of common shareholders' equity. At year-end 1988, the Royal Bank met the 1992 Tier 1 minimum guideline of 4.0%. The Bank is entirely satisfied that it will be well within the Superintendent of Financial Institution's required capital targets and that its risk-weighted capital position will compare very favourably to that of other major international banks.

In 1988, the Bank paid a dividend of $2.08 per common share compared to $2.02 in fiscal 1987.

FOURTH QUARTER 1988

In the fourth quarter of fiscal 1988, the Royal Bank's net income totalled a record $221 million, an increase of $90 million or 69% from the same quarter in 1987. Fully diluted earnings per share were $1.49, up $0.57 from a year ago. Return on assets was 0.81% and return on equity 20.0%, compared to 0.51% and 13.4% respectively in the same three-month period last year.

These strong results reflect significantly lower loan losses and continued strength in retail lending and fee-based revenues. Earnings were also boosted by $44 million of current interest receipts from Brazil, and by $43 million in recoveries of past-due interest from domestic borrowers.

Domestic earnings totalled $204 million compared to $116 million in the fourth quarter of 1987. At $17 million, earnings from International operations were $2 million higher than a year ago.

Other income registered strong gains, advancing $87 million or 30% over last year. The major factor behind this improvement was a $47 million increase in securities commissions, derived mostly from RBC Dominion Securities.

Non-interest expenses increased $85 million or 14% from a year ago to $691 million in the fourth quarter. This figure included write-offs of $18 million in goodwill and $6 million in fixed assets associated with the Bank's International operations. Excluding RBC Dominion Securities, however, total non-interest expenses rose 4.3%.

The provision for loan losses was $105 million in the quarter, a reduction of $120 million from the fourth quarter of 1987. Unlike a year ago, this year's fourth quarter provision included a $40 million addition to the Bank's general provision for losses on country lending.

During the fourth quarter the Bank issued Cdn. $250 million and U.S. $100 million of 10-year debentures.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These financial statements were prepared by the management of The Royal Bank of Canada. While the form of the financial statements and the accounting policies to be followed are prescribed by the Bank Act and related rules issued by the Superintendent of Financial Institutions, many amounts must of necessity be based on the best estimates and judgments of management.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, written policies and procedure manuals, a written corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by an inspection staff which conducts periodic inspections of all aspects of the Bank's operations. In addition, the Bank's Chief Inspector has full and unrestricted access to the Audit Committee of the Board of Directors which oversees management's responsibilities for financial reporting. The Audit Committee is composed entirely of directors who are neither officers nor employees of the Bank.

The Superintendent of Financial Institutions, at least once a year, makes such examination and enquiry into the affairs of the Bank as he feels necessary to satisfy himself that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the Bank, are being duly observed and that the Bank is in a sound financial condition.

Touche Ross & Co. and Price Waterhouse, the independent auditors appointed by the shareholders of the Bank, have examined our financial statements in accordance with generally accepted auditing standards and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the Bank's financial reporting and the adequacy of the system of internal controls.

ALLAN R. TAYLOR
Chairman and Chief Executive Officer

A. H. MICHELL
Vice-Chairman

AUDITORS' REPORT

To the Shareholders, The Royal Bank of Canada

We have examined the consolidated statement of assets and liabilities of The Royal Bank of Canada as at October 31, 1988 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Bank as at October 31, 1988 and the results of its operations and changes in its financial position for the year then ended in accordance with accounting principles prescribed by the Bank Act applied, after giving retroactive effect to the change in accounting for loan losses as explained in note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
PRICE WATERHOUSE
Chartered Accountants

Montreal, December 5, 1988

Consolidated Statement of Income

(in thousands of dollars)	*Year Ended October 31, 1988*	*Year Ended October 31, 1987*
Interest Income		
Loans	**$7,676,994**	$6,563,507
Lease financing	**117,830**	96,999
Securities	**706,339**	785,403
Deposits with banks	**703,851**	881,495
	9,205,014	8,327,404
Interest Expense		
Deposits	**5,871,466**	5,304,441
Bank debentures	**141,549**	135,644
Other	**31,254**	42,409
	6,044,269	5,482,494
Net Interest Income	**3,160,745**	2,844,910
Provision for loan losses *(note 2)*	**750,000**	900,000
Net Interest Income After Provision for Loan Losses	**2,410,745**	1,944,910
Other income	**1,389,962**	1,170,745
Net Interest and Other Income	**3,800,707**	3,115,655
Non-Interest Expenses		
Salaries	**1,331,886**	1,212,205
Pension and other staff benefits	**135,257**	115,037
Premises and equipment, including depreciation	**462,460**	407,970
Other	**620,095**	591,923
	2,549,698	2,327,135
Net Income Before Income Taxes	**1,251,009**	788,520
Income taxes *(note 3)*	**530,000**	273,000
Net Income Before Minority Interest	**721,009**	515,520
Minority interest in subsidiaries	**8,691**	3,206
Net Income Before Special Provision for Losses	**712,318**	512,314
Special provision for losses on country lending, net of income taxes *(note 2)*	—	800,000
Net Income (Loss)	**$ 712,318**	$ (287,686)
Income (Loss) per Share *(note 4)*		
Before Special Provision for Losses		
Basic	**$5.05**	$3.78
Fully diluted	**$4.83**	$3.62
After Special Provision for Losses		
Basic	**$5.05**	$(3.20)
Fully diluted	**$4.83**	$(3.20)

Consolidated Statement of Assets and Liabilities

(in thousands of dollars)	*October 31, 1988*	*October 31, 1987*
ASSETS		
Cash Resources		
Cash and deposits with Bank of Canada	**$ 2,307,487**	$ 1,321,815
Deposits with other banks	**7,786,055**	12,488,159
	10,093,542	13,809,974
Securities *(note 5)*		
Issued or guaranteed by Canada	**3,239,953**	3,919,760
Issued or guaranteed by provinces and municipal or school corporations	**685,916**	89,402
Other securities	**4,946,371**	4,576,642
	8,872,240	8,585,804
Loans *(note 6)*		
Day, call and short loans to investment dealers and brokers, secured	**883,099**	716,419
Loans to banks	**1,868,196**	1,962,322
Mortgage loans	**20,414,941**	17,156,880
Other loans	**54,615,103**	49,456,918
	77,781,339	69,292,539
Other		
Customers' liability under acceptances	**9,538,994**	7,226,439
Land, buildings and equipment *(note 8)*	**1,334,558**	1,252,962
Other assets *(note 9)*	**2,433,667**	2,002,483
	13,307,219	10,481,884
	$110,054,340	$102,170,201

(in thousands of dollars)	*October 31, 1988*	*October 31, 1987*
LIABILITIES		
Deposits *(note 10)*		
Payable on demand	**$ 9,575,627**	$ 9,183,874
Payable after notice	**30,445,607**	28,113,980
Payable on a fixed date	**48,177,988**	48,513,176
	88,199,222	85,811,030
Other		
Cheques and other items in transit, net	**46,045**	412,151
Acceptances	**9,538,994**	7,226,439
Liabilities of subsidiaries other than deposits *(note 11)*	**240,380**	329,488
Other liabilities *(note 12)*	**4,843,441**	2,496,606
Minority interest in subsidiaries	**99,020**	9,757
	14,767,880	10,474,441
Subordinated Debt		
Bank debentures *(note 13)*	**2,000,214**	1,520,900
Shareholders' Equity		
Capital stock *(note 14)*		
Preferred	**953,668**	1,012,118
Common	**1,961,590**	1,545,090
Retained earnings	**2,171,766**	1,806,622
	5,087,024	4,363,830
	$110,054,340	$102,170,201

ALLAN R. TAYLOR
Chairman and Chief Executive Officer

JOHN E. CLEGHORN
President

Consolidated Statement of Changes in Shareholders' Equity

(in thousands of dollars)	*Year Ended October 31, 1988*	*Year Ended October 31, 1987*
Capital Stock		
Balance at beginning of year	**$2,557,208**	$2,217,561
Issue of common shares	**416,500**	352,217
Preferred shares purchased for cancellation	**(4,929)**	(5,018)
Preferred shares converted into common shares	**(44,551)**	(22)
Translation adjustment on shares issued in foreign currency	**(8,970)**	(7,530)
Balance at end of year	**$2,915,258**	$2,557,208
Retained Earnings		
Balance at beginning of year – as restated *(note 2)*	**$1,806,622**	$2,444,081
Net income (loss)	**712,318**	(287,686)
Dividends *(note 14)*	**(345,643)**	(315,460)
Gain on preferred shares purchased for cancellation	**359**	201
Income taxes related to the change in accounting for loan losses *(note 3)*	—	(29,000)
Expense of share issue, net of income taxes *(note 3)*	—	(500)
Unrealized foreign currency translation losses, net of hedging activities and related income taxes *(note 3)*	**(1,890)**	(5,014)
Balance at end of year	**$2,171,766**	$1,806,622

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)	*Year Ended October 31, 1988*	*Year Ended October 31, 1987*
Funds Derived From		
Operations		
Net income (loss)	**$ 712,318**	$ (287,686)
Dividends	**(345,643)**	(315,460)
Other	**(1,531)**	(34,313)
	365,144	(637,459)
Capital		
Bank debentures	**479,314**	(546,921)
Preferred shares	**(58,450)**	(12,570)
Common shares	**416,500**	352,217
	837,364	(207,274)
Banking		
Deposits	**2,388,192**	1,557,759
Acceptances	**2,312,555**	1,788,686
Other	**1,980,884**	61,924
	6,681,631	3,408,369
Net Funds Provided	**$ 7,884,139**	$ 2,563,636
Funds Invested In		
Cash resources	**$(3,716,432)**	$(1,098,053)
Securities	**286,436**	(1,658,074)
Loans	**8,488,800**	3,358,338
Customers' liability under acceptances	**2,312,555**	1,788,686
Other	**512,780**	172,739
Net Funds Invested	**$ 7,884,139**	$ 2,563,636

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of The Royal Bank of Canada are prepared in accordance with accounting principles prescribed by the Bank Act and the related rules issued by the Superintendent of Financial Institutions under the authority of the Minister of Finance, and other prevailing practices of the banking industry. These regulations require the Bank to carry its assets and liabilities on the historical cost basis and to follow the accrual method of accounting.

The accounting principles followed in determining Net Income conform in all material respects with accounting principles generally accepted in Canada except for the deferral of gains and losses on the disposal of debt securities and for the translation of foreign currencies.

The significant accounting policies of the Bank are summarized below:

Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The Bank accounts for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the fair value of the net assets acquired is amortized over appropriate periods varying from 5 to 15 years.

Investments in associated corporations (corporations owned between 20% and 50%) are accounted for using the equity method. The Bank's share of earnings of these associated corporations and gains and losses realized on dispositions of investments in associated corporations are included in income from securities.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at prevailing quarter-end rates.

Foreign exchange trading positions, including spot and forward contracts, are valued monthly at prevailing market rates and the resulting gains and losses are included in "Other income". Realized gains and losses on foreign exchange transactions are also included in "Other income"

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations are recorded in Retained Earnings. On disposal of such investments, the accumulated net translation gain or loss is included in income.

Securities

Securities comprise investment account and trading account securities as well as loan substitute securities.

Investment account securities are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost and debt securities at amortized cost. Premiums and discounts on debt securities are amortized to income using the yield method over the period to maturity of the related securities. Gains and losses realized on disposal of debt securities other than Treasury Bills are deferred and amortized to income over five years. Gains and losses realized on disposal of equity securities and write-downs to reflect permanent impairment in value are included in income in the period in which they occur.

Trading account securities, which are purchased for resale over a short period of time, are stated at estimated current market value. Gains and losses realized on disposal and unrealized valuation adjustments are included in income in the period in which they occur.

Loan substitute securities are customer financings which have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities bear interest at floating rates and are accorded the accounting treatment applicable to Loans.

Loans

Loans are stated net of unearned interest and of an allowance for credit losses.

Non-performing loans consist of non-accrual loans and renegotiated reduced-rate loans. Non-accrual loans are those placed on a cash basis because there is reasonable doubt regarding the collectibility of principal or interest. Whenever payment of interest is 90 days past due, loans other than credit card balances are automatically placed on a non-accrual basis except in certain instances where management has determined that the collectibility of principal and interest is not reasonably in doubt. Upon classification of a loan to a non-accrual basis any previously accrued but unpaid interest thereon is reversed against income of the current period. In subsequent periods, interest received on non-accrual loans is recorded as income only if management has determined that the loan does not require a specific provision for loss; otherwise interest received is credited to principal. Non-accrual loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt regarding collectibility. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis as long as there is no reasonable doubt regarding the collectibility of principal or interest and interest is not 90 days past due.

Renegotiated reduced-rate loans provide for a rate of interest lower than the prevailing market rates on similar loans to new borrowers.

Loan fees are included in income as received only where they relate to expenses incurred or services performed. Loan rescheduling fees and fees received which are in lieu of interest are deferred and amortized over the term of the loan.

Lease receivables, included in "Other loans" on the Statement of Assets and Liabilities, represent the aggregate remaining lease payments less unearned income. Unearned income, which at the inception of the lease represents the difference between total lease payments receivable and the cost of the leased asset, is amortized to income over the lease term so as to yield a constant rate of return on the declining balance of the lease receivable.

Allowance for Credit Losses

The allowance for credit losses is maintained in an amount considered adequate to absorb anticipated credit-related losses. Credit losses arise primarily from loans but also derive from deposits with other banks, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by provisions for losses which are charged to income, and reduced by write-offs net of recoveries.

Specific provisions are established on an individual facility basis to recognize credit losses on most types of exposure. For consumer instalment loans, an aggregate provision is recorded by reference to historical ratios of write-offs to balances outstanding. For credit card balances, no provisions are recorded; instead, balances are written off when no payment has been received for 180 days.

A general provision is made in respect of aggregate exposure in a number of troubled countries based on an overall assessment of the underlying economic conditions in those countries and in accordance with instructions issued by the Superintendent of Financial Institutions.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

Acceptances

The Bank's potential liability under acceptances is reported as a liability in the Statement of Assets and Liabilities. The Bank's recourse against the customer in the case of a call on these commitments is reported as an offsetting asset of the same amount.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line method over the estimated useful lives as indicated below. Gains and losses on disposal are recorded in "Other income".

Buildings	20 to 50 years
Computer equipment	3 to 10 years
Furniture, fixtures and other equipment	7 to 10 years
Leasehold improvements	term of lease plus first option period

Interest Rate Futures and Future Rate Agreements

The Bank uses interest rate futures and future rate agreements in trading activities and to hedge interest rate exposure on assets, liabilities and anticipated transactions.

When used in trading activities, interest rate futures and future rate agreements are marked to market and the resultant gains and losses are recognized in income.

When used for hedging purposes, gains and losses on interest rate futures and future rate agreements are generally deferred and recognized in income over the expected remaining life of the hedged item.

Interest Rate and Cross Currency Swaps

The Bank enters into interest rate and cross currency swaps as an intermediary between swapping counterparties in order to earn fee income, and as a principal in order to manage interest rate and foreign currency exposure.

When acting as an intermediary, the Bank records fees for arrangement services in income as received.

When acting as a principal, the bank accrues income or expense associated with interest rate and cross currency swaps over the life of the agreements.

Foreign Currency Options

The Bank enters into foreign currency options as a writer in order to earn fee income, and as a purchaser in order to manage foreign currency exposure.

Both written and purchased foreign currency options are marked to market and the resultant gains and losses are recognized in income. For written options, the maximum gain accrued is equal to the premiums received at inception; for purchased options, the maximum loss accrued is equal to the premiums paid at inception.

Income Taxes

The Bank follows the tax allocation basis of accounting under which income taxes on specific transactions are recorded in the periods in which the transactions are recognized for accounting purposes regardless of when the transactions are recognized for tax purposes. Income taxes comprise amounts applicable to income included in the Statement of Income and to items charged or credited to Retained Earnings.

Deferred income taxes accumulated as a result of timing differences are included either in "Other assets" or "Other liabilities" as applicable. In addition, the Statement of Income contains items which are non-taxable or non-deductible for income tax purposes and accordingly cause the income tax provision to be different than it would be based on statutory rates.

Pension Plan

The Bank maintains a defined benefit pension plan which is available to substantially all employees after two years service or at age 25, on a contributory or a non-contributory basis. The plan provides pensions based on years of service and contribution, and average earnings at retirement. Employees of subsidiaries of the Bank are generally covered by separate pension plans which offer comparable benefits.

An actuarial valuation is performed each year to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Pension fund assets are carried at adjusted market values.

Pension expense consists of the aggregate of (a) the actuarially computed cost of pension benefits provided in respect of the current year's service, (b) imputed interest on the funding excess or deficiency of the plan and (c) the amortization over the expected average remaining service life of employees of (i) the unamortized past service pension contribution existing as at October 31, 1985, the date the current accounting policy commenced, (ii) the funding excess or deficiency existing as at the date of the latest actuarial valuation and (iii) any experience gain or loss during the year.

The cumulative difference between the funding contributions and the amounts recorded as pension expense is reflected in "Other assets".

2. CHANGE IN ACCOUNTING FOR LOAN LOSSES

Effective November 1, 1987, the Bank has retroactively changed its policy for accounting for loan losses in accordance with instructions issued by the Superintendent of Financial Institutions.

Beginning November 1, 1987, the amount of loan losses charged to income represents the actual loan losses for the period, rather than the amount determined under a prescribed formula which was designed to average loan losses over a five-year period. In periods prior to November 1, 1987, the difference between the actual loan losses and the five-year average loan loss provision was charged or credited directly to "Appropriations for Contingencies".

The retroactive application of the change in accounting had the effect of increasing the previously reported net loss for the year ended October 31, 1987 by $29,000,000 ($0.25 for both basic and fully diluted loss per share). Retained Earnings as at November 1, 1987 and 1986 were restated to include $100,712,000 which was the balance of Appropriations for Contingencies recorded as at those dates.

In 1987, due to significant new uncertainties surrounding the collectibility of loans to troubled countries, management determined it necessary to record a "Special provision for losses on country lending" in the amount of $1,400,000,000. In accordance with instructions issued by the Superintendent of Financial Institutions, this amount was recorded, net of related income taxes of $600,000,000, as a separate charge to income. Under the new accounting policy, this special provision continues to be shown as a separate charge to income in 1987.

3. INCOME TAXES

	1988	1987
Income taxes are reported in the consolidated financial statements as follows:		
Statement of Income		
Before special provision for losses	**$530,000**	$ 273,000
Special provision for losses	—	(600,000)
Statement of Retained Earnings		
Change in accounting for loan losses	—	29,000
Expense of share issue	—	(500)
Unrealized foreign currency translation losses, net of hedging activities	**51,500**	—
Total Income Tax Provision (Recovery)	**$581,500**	$(298,500)

The current and deferred income taxes are as follows:

	1988	1987
Current income taxes	**$266,232**	$ 95,866
Deferred income taxes	**315,268**	(394,366)
Total Income Tax Provision (Recovery)	**$581,500**	$(298,500)

Income taxes in the Statement of Income (before the special provision for losses) are at an effective rate less than the combined federal and provincial statutory income tax rate for the following reasons:

	1988	1987
Combined federal and provincial statutory income tax rate	**46.6%**	49.8%
Changes in rate resulting from:		
Tax-exempt income from securities, primarily income debentures, term preferred shares and small business bonds	**(2.3)**	(11.4)
Lower average tax rate applicable to subsidiaries	**(4.8)**	(6.9)
Other, net	**2.9**	3.1
Effective income tax rate	**42.4%**	34.6%

4. INCOME (LOSS) PER SHARE

Basic Income (Loss) per Share is calculated after deducting preferred dividends of $79,365,000 (1987 – $79,219,000) and is based on the average number of common shares outstanding for the year of 125,338,590 (1987 – 114,665,259).

Fully Diluted Income (Loss) per Share has been calculated on the average number of Common Shares which would have been outstanding during the year of 141,115,260 (1987 – 135,413,061) assuming conversion of all convertible securities and exercise of all warrants outstanding as at the beginning of each year or date of issue if later. For purposes of this calculation, adjustments of $48,897,000 (1987 – $56,445,000) have been made for the after-tax interest on convertible debentures, the dividends on convertible preferred shares and an imputed after-tax return at an appropriate rate on additional funds which would be received on the conversion of the Second Preferred Shares Series A.

5. SECURITIES

	Maturity					*1988*		*1987*	
	Within 1 Year	*1 to 3 Years*	*3 to 5 Years*	*5 to 10 Years*	*Over 10 Years*	*Carrying Amount*	*Estimated Market Value*	*Carrying Amount*	*Estimated Market Value*
Investment Account Securities									
Issued or guaranteed by Canada and provinces	**$2,505,960**	**$ 52,064**	**$ 3,041**	**$126,724**	**$ 50,328**	**$2,738,117**	**$2,740,665**	$3,450,249	$3,463,670
Other debt	**988,452**	**287,727**	**156,226**	**171,854**	**9,820**	**1,614,079**	**1,610,143**	1,947,935	1,939,546
Other equity*					**528,668**	**528,668**	**492,616**	575,652	478,704
	3,494,412	**339,791**	**159,267**	**298,578**	**588,816**	**4,880,864**	**4,843,424**	5,973,836	5,881,920
Trading Account Securities	**1,832,254**	**255,194**	**212,815**	**542,075**	**383,119**	**3,225,457**	**3,225,457**	1,038,899	1,038,899
Loan Substitute Securities									
Income debentures	**59,903**	—	—	—	—	**59,903**	**59,903**	204,238	204,238
Small business bonds	**988**	**42,405**	**68,826**	—	—	**112,219**	**112,219**	115,493	115,493
Term preferred shares	**132,582**	**56,814**	**25,410**	**65,520**	**152,022**	**432,348**	**432,348**	1,066,992	1,066,992
	193,473	**99,219**	**94,236**	**65,520**	**152,022**	**604,470**	**604,470**	1,386,723	1,386,723
Securities of Associated Corporations*					**161,449**	**161,449**	**161,449**	186,346	186,346
	$5,520,139	**$694,204**	**$466,318**	**$906,173**	**$1,285,406**	**$8,872,240**	**$8,834,800**	$8,585,804	$8,493,888

**Securities of associated corporations and other equity securities have no stated term and have been classified under the "over 10 years" column.*

6. LOANS, NET OF ALLOWANCE FOR CREDIT LOSSES

	1988	*1987*
Domestic*		
Day, call and short loans to investment dealers and brokers, secured	$ 881,337	$ 597,464
Provinces and municipal or school corporations	97,749	97,635
Lease receivables	748,900	615,321
Consumer instalment loans	7,616,787	6,571,615
Mortgage loans	19,234,324	15,818,102
Other loans	32,762,810	29,301,721
	61,341,907	53,001,858
International*		
Lease receivables	428,089	355,945
Associated corporations	55,561	83,672
Loans to banks	1,458,136	1,711,859
Consumer instalment loans	345,941	321,433
Mortgage loans	1,180,617	1,338,778
Other loans	12,971,088	12,478,994
	16,439,432	16,290,681
	$77,781,339	$69,292,539

**Domestic loans include all loans booked in Canada, regardless of currency, with the exception of those of the Canadian-based International Money Markets. The loans of this unit, together with loans booked outside Canada, comprise International loans.*

Non-Performing Loans, net of Allowance for Credit Losses (included above)

	1988	*1987*
Non-accrual Loans		
Domestic	$ 733,637	$1,146,208
International	293,111	495,531
	$1,026,748	$1,641,739
Renegotiated Reduced-rate Loans		
Domestic	$109,551	$86,077
International	1,845	1,823
	$111,396	$87,900

7. ALLOWANCE FOR CREDIT LOSSES

			1988	*1987*
	Domestic	*International*	*Total*	*Total*
Balance at beginning of year	$425,719	$2,318,558	$2,744,277	$1,182,219
Provision for loan losses	320,000	430,000	750,000	900,000
Special provision for losses on country lending	—	—	—	1,400,000
Write-offs, net of recoveries	(352,624)	(164,062)	(516,686)	(722,947)
Other, principally translation adjustments on provisions denominated in foreign currencies	(2,550)	(114,209)	(116,759)	(14,995)
Balance at end of year	$390,545	$2,470,287	$2,860,832	$2,744,277
Composed of:				
Specific provisions	$390,545	$ 192,012	$ 582,557	$ 724,864
General provision for losses on country lending	—	2,278,275	2,278,275	2,019,413
Total	$390,545	$2,470,287	$2,860,832	$2,744,277

8. LAND, BUILDINGS AND EQUIPMENT

			1988	1987
	Cost	*Accumulated Depreciation*	*Net Book Value*	*Net Book Value*
Land	$ 137,848	$ —	$ 137,848	$ 134,210
Buildings	798,211	190,836	607,375	617,181
Computer equipment	530,942	278,686	252,256	220,336
Furniture, fixtures and other equipment	423,551	261,143	162,408	138,522
Leasehold improvements	297,728	123,057	174,671	142,713
	$2,188,280	$853,722	$1,334,558	$1,252,962

Depreciation expense for the year ended October 31, 1988 was $150,000,000 (1987 – $129,116,000)

9. OTHER ASSETS

	1988	1987
Accrued interest	$ 984,020	$ 830,523
Amounts receivable from brokers, dealers and clients	318,705	—
Cumulative excess of pension fund contributions over the amounts recorded as expense	73,907	66,633
Deferred income taxes	178,170	489,902
Goodwill	229,613	49,314
Other items, including accounts receivable and prepaid expenses	649,252	566,111
	$2,433,667	$2,002,483

10. DEPOSITS

				1988	1987
	Payable on Demand	*Payable after Notice*	*Payable on a Fixed Date*	*Total*	*Total*
Domestic*					
Government of Canada	$ 246,364	$ —	$ 50,000	$ 296,364	$ 1,046,735
Provincial governments	139,699	35,761	5,077	180,537	122,088
Banks	823,787	—	307,252	1,131,039	1,095,976
Individuals	1,516,527	24,167,578	17,212,644	42,896,749	38,633,949
Other	5,700,342	4,985,381	7,286,430	17,972,153	15,488,909
	8,426,719	29,188,720	24,861,403	62,476,842	56,387,657
International*					
Provincial governments	—	—	90,196	90,196	30,633
Banks	146,805	272,458	11,235,132	11,654,395	14,163,790
Individuals	353,286	693,733	2,756,948	3,803,967	3,896,291
Other	648,817	290,696	9,234,309	10,173,822	11,332,659
	1,148,908	1,256,887	23,316,585	25,722,380	29,423,373
	$9,575,627	$30,445,607	$48,177,988	$88,199,222	$85,811,030

**Domestic deposits include all deposits booked in Canada, regardless of currency, with the exception of those of the Canadian-based International Money Markets. The deposits of this unit, together with deposits booked outside Canada, comprise International deposits.*

11. LIABILITIES OF SUBSIDIARIES OTHER THAN DEPOSITS

These liabilities are subordinated in right of payment to claims of the depositors and certain other creditors of the respective subsidiaries.

	1988	1987
RoyLease Limited		
Long-term notes payable in various amounts to 1997 and bearing interest at rates from 8¾% to 11¾%	$197,064	$305,252
Other subsidiaries	43,316	24,236
	$240,380	$329,488

12. OTHER LIABILITIES

	1988	1987
Accrued interest	$1,630,839	$1,278,409
Amounts payable to brokers, dealers and clients	1,184,719	94,088
Obligations related to securities sold short or under repurchase agreements	808,056	104,394
Dividends payable	87,518	79,626
Obligation under capital leases	78,819	125,265
Unamortized gains on disposal of debt securities	16,856	43,981
Other items, including accounts payable and accrued expenses	1,036,634	770,843
	$4,843,441	$2,496,606

13. BANK DEBENTURES

The debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank.

In accordance with the formula prescribed in the Bank Act, as at November 1, 1988 the Bank had the capacity to issue an additional $618,000,000 of debentures.

Maturity	*Rate*			*1988*	*1987*
December 1, 1987	7½%			$ —	$ 789
April 1, 1988	9½%			—	13,847
February 15, 1989	10.40%			**75,000**	75,000
November 15, 1990		(1)		**75,000**	75,000
April 15, 1991	7%	(2)	Callable	**2,401**	2,751
July 22, 1991	12%	(3)	Convertible	**100,000**	100,000
February 15, 1992	9%	(2)	Callable	**29,206**	30,248
May 15, 1994	10%	(2)	Callable	**31,313**	32,559
December 1, 1994	10%	(2)	Callable	**5,888**	6,208
June 1, 1998	10.80%		Callable on or after June 2, 1993	**200,000**	—
September 30, 1998		(4)	Callable on or after September 30, 1993	**122,580**	—
January 15, 1999	10.90%		Callable on or after September 30, 1993	**250,000**	—
May 22, 2000	11⅝%	(2),(5)	Callable on or after November 22, 1992	**62,056**	79,423
July 5, 2005		(6)	Callable on or after July 6, 1990	**429,030**	460,425
October 1, 2083		(7)	Callable on or after October 2, 1989	**250,000**	250,000
June 6, 2085		(8)	Callable on or after June 6, 1991	**367,740**	394,650
				$2,000,214	$1,520,900

(1) The November 15, 1990 debentures bear interest at a rate of ⅛ of 1% below the Bank's Canadian prime rate.
(2) Subject to sinking fund provisions.
(3) The July 22, 1991 debentures are convertible at the option of the holder up to and including July 21, 1991 into Common Shares at a conversion price of $35 per Common Share. These debentures are also convertible at the option of the Bank at a conversion price of $35 per Common Share if the Common Shares have traded at or in excess of certain weighted average prices.
(4) The September 30, 1998 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. $100,000,000. These debentures bear interest at a rate of 0.08% above the six-month LIBOR.
(5) The May 22, 2000 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. $50,625,000.
(6) The July 5, 2005 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. $350,000,000. These debentures bear interest at a rate of 1/16 of 1% above the three-month LIBOR.
(7) The October 1, 2083 debentures bear interest at a rate of 0.40% above the 30-day Bankers' Acceptance rate reported by the Bank of Canada.
(8) The June 6, 2085 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. $300,000,000. These debentures bear interest at a rate equal to ¼ of 1% above the three-month LIMEAN. In the event of a reduction of the annual dividend declared by the Bank on its Common Shares, the interest payable on the debentures is reduced pro-rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.

Repayment Schedule

The aggregate sinking fund requirements and maturities of the Bank's debentures assuming the earliest possible dates of maturity under the terms of issue are as follows:

Within 1 year	$ 82,495
From 1 to 2 years	9,239
From 2 to 3 years	186,640
From 3 to 5 years	40,516
From 5 to 10 years	382,258
Over 10 years	1,299,066
	$2,000,214

14. CAPITAL STOCK

Authorized Capital Stock

Preferred – 50,000,000 First Preferred Shares and 50,000,000 Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares may be issued shall not exceed $1,250,000,000 in each case.

Common – 250,000,000 shares without nominal or par value provided that the aggregate consideration shall not exceed $3,000,000,000.

	1988		*1987*	
Outstanding Capital Stock	*Number of Shares (in thousands)*	*Amount*	*Number of Shares (in thousands)*	*Amount*
First Preferred				
$1.88 Cumulative Redeemable First Preferred Shares Series A (1)				
Outstanding at beginning of year	4,824	$ 120,605	5,025	$ 125,623
Purchased for cancellation	(197)	(4,929)	(201)	(5,018)
Outstanding at end of year	4,627	115,676	4,824	120,605
$1.45 Cumulative Redeemable First Preferred Shares Series B (2)				
Outstanding at beginning of year	15,000	300,000	15,000	300,000
Converted into Common Shares	(1,400)	(28,009)	—	—
Outstanding at end of year	13,600	271,991	15,000	300,000
Floating Rate Cumulative Redeemable First Preferred Shares Series C (3)				
Outstanding at end of year	1,000	100,000	1,000	100,000
U.S.$ Floating Rate Cumulative Redeemable First Preferred Shares Series D (3)				
Outstanding at beginning of year	1,000	131,550	1,000	139,080
Foreign currency translation adjustment		(8,970)		(7,530)
Outstanding at end of year	1,000	122,580	1,000	131,550
Price Adjusted Floating Rate Cumulative Redeemable First Preferred Shares Series E (4)				
Outstanding at end of year	1,500	150,000	1,500	150,000
Second Preferred				
$2.75 Cumulative Redeemable Convertible Second Preferred Shares Series A (5)				
Outstanding at beginning of year	8,398	209,963	8,399	209,985
Converted into Common Shares	(662)	(16,542)	(1)	(22)
Outstanding at end of year	7,736	193,421	8,398	209,963
Total Outstanding Preferred Stock		953,668		1,012,118
Common				
Outstanding at beginning of year	118,005	1,545,090	106,522	1,192,873
Issued under the Shareholder Dividend and Share Purchase Plan	4,155	112,336	2,895	94,576
Issued on conversion of First Preferred Shares Series B	700	28,009	—	—
Issued on conversion of Second Preferred Shares Series A	662	19,850	1	27
Issued on conversion of Debentures	—	—	8,587	257,614
Issued on acquisition of subsidiary *(note 18)*	9,128	256,305	—	—
Total Outstanding Common Stock	132,650	1,961,590	118,005	1,545,090
Total Outstanding Capital Stock		$2,915,258		$2,557,208

(1) The Bank has undertaken to purchase in each calendar quarter 48,000 of the First Preferred Shares Series A, if available, at prices not exceeding $25 per share.

(2) 7,500,000 Common Share Warrants were previously outstanding. Each Warrant entitled the holder to purchase one Common Share at a price of $40 on or prior to June 9, 1988, and, in addition, gave the holder the option to tender two First Preferred Shares Series B, in lieu of cash, in return for one Common Share. In June 1988, 700,230 Warrants along with 1,400,460 First Preferred Shares Series B were tendered in return for 700,230 Common Shares. The remaining 6,799,770 Warrants expired. The Bank has the option to redeem the remaining First Preferred Shares Series B at $21 per share until June 9, 1989 reducing by $0.20 per year until June 9, 1993 and thereafter at $20. The Bank may at any time purchase for cancellation First Preferred Shares Series B at a price per share not exceeding the then applicable above-mentioned redemption price. These redemption and purchase for cancellation options are subject to the consent of the Superintendent of Financial Institutions.

(3) The dividends on the First Preferred Shares Series C and D are determined quarterly by applying to Cdn.$100 and U.S.$100 respectively, the greater of (i) 6.67% per annum and (ii) ⅔ of the Bank's average Canadian and U.S. prime rates respectively for stated periods. The First Preferred Shares Series C and D are not redeemable by the Bank prior to June 8, 1989 but thereafter are redeemable at a price per share of Cdn.$100 and U.S.$100 respectively. The Bank may at any time purchase for cancellation First Preferred Shares Series C and D at a price per share not exceeding Cdn.$100 and U.S.$100 respectively. These redemption and purchase for cancellation options are subject to the consent of the Superintendent of Financial Institutions.

(4) The dividend on the First Preferred Shares Series E is determined monthly and (i) floats in relation to changes in the Bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than 55% or greater than 75% of the average prime rate. The First Preferred Shares Series E are not redeemable by the Bank prior to April 30, 1991 but thereafter are redeemable at a price per share of $100. The Bank may at any time purchase for cancellation First Preferred Shares Series E at a price per share not exceeding $100. These redemption and purchase for cancellation options are subject to the consent of the Superintendent of Financial Institutions.

(5) The Second Preferred Shares Series A were retractable at the option of the holder on or before November 9, 1988, for redemption on December 9, 1988 at a price of $28.75 per share plus accrued dividends. In addition, each Second Preferred Share Series A, including any which has been tendered for redemption on December 9, 1988, is convertible at the option of the holder up to and including December 8, 1988 into one Common Share upon payment by the holder of $5, being a conversion price of $30 per Common Share, subject to adjustment in certain events.

As at October 31, 1988, Common Shares were reserved for possible issuance as follows:	*Number of shares (in thousands)*
– Under the Shareholder Dividend and Share Purchase Plan	1,770
– Upon conversion of the July 22, 1991 Debentures	2,857
– Upon conversion of the Second Preferred Shares Series A	7,736
	12,363

Dividends Declared	*1988*	*1987*
Preferred		
First Preferred		
Series A	$ 8,870	$ 9,231
Series B	20,736	21,750
Series C	6,887	6,667
Series D	8,251	8,906
Series E	11,613	9,568
Second Preferred		
Series A	23,008	23,097
	79,365	79,219
Common	266,278	236,241
	$345,643	$315,460

15. PENSION PLAN

	1988	1987
The funding excess of the Bank's principal pension plan as at January 1, 1988 and 1987 is determined as follows:		
Pension fund assets, at adjusted market values	$1,362,012	$1,252,513
Actuarially computed present value of accrued pension benefits	1,113,243	1,012,052
Funding excess	$ 248,769	$ 240,461
The pension expense (credit) reported in the Statement of Income for the year ended October 31, 1988 and 1987 amounted to:	$ 726	$ (8,915)
The cumulative excess of pension fund contributions over the amounts recorded as expense, reported in "Other assets" as at October 31, 1988 and 1987 amounted to:	$ 73,907	$ 66,633

16. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business the Bank undertakes various commitments and has contingent liabilities which are not reflected in the financial statements. Management does not anticipate any material losses to result from these transactions.

The commitments and contingent liabilities reported below reflect various degrees and types of risks, including credit, interest rate, foreign exchange rate and liquidity risk. The amounts reported represent financial commitments to perform, but do not necessarily reflect the economic risks associated with the commitments.

Many commitments to extend credit do not ultimately involve any outlay of funds to customers and therefore have neither liquidity nor credit risk. Foreign exchange and interest rate contracts, since they generally consist of offsetting commitments, involve limited foreign exchange and interest rate risk to the Bank.

Credit risk is the exposure to loss in the event of non-performance by the other party to a transaction, and is a function of the ability of the counterparty to honour its obligations to the Bank. For all types of foreign exchange and interest rate contracts, only exposures created by movements unfavourable to a customer's foreign exchange or interest rate position create a potential for credit risk. Hence, generally, only half of the contract amounts outstanding will be a source of any credit risk at a particular point in time, and then only for an amount equal to changes in foreign exchange or interest rates. The Bank controls all credit risks through credit approvals, limits and monitoring procedures.

Certain foreign exchange and interest rate contracts are entered into by the Bank to reduce the exposure of certain assets and liabilities on the balance sheet to foreign exchange or interest rate risk.

	1988	1987
Credit Instruments		
Guarantees and standby letters of credit (1)	$ 5,952,881	$ 3,918,879
Documentary and commercial letters of credit	1,285,026	2,387,568
Commitments to extend credit (2)	54,233,624	53,728,635
Note issuance facilities/Revolving underwriting facilities	832,471	1,261,295
Foreign Exchange and Interest Rate Contracts		
Foreign exchange forward contracts (3)	149,295,900	158,561,149
Foreign currency and interest rate futures	4,289,943	6,613,915
Future rate agreements	17,817,664	8,530,993
Foreign currency and interest rate options	3,257,083	652,207
Foreign currency and interest rate swaps	51,800,890	28,671,083

(1) Guarantees and standby letters of credit include those to associated corporations of $5,410,000 as at October 31,1988 (1987 – $16,294,000).

(2) Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

(3) Foreign exchange forward contracts represent commitments to purchase foreign currency and Canadian dollars, including undelivered spot transactions.

(4) The above amounts, except for those relating to guarantees and letters of credit, are as at September 30.

Lease Commitments

Minimum future rental commitments for buildings under long-term non-cancellable leases for the next five years are:

1989	$83,153
1990	75,775
1991	66,046
1992	57,104
1993	45,316

Annual rental commitments after 1993 are in decreasing amounts.

Litigation

Various legal proceedings are pending against the Bank and its subsidiaries. Management considers that the aggregate liability resulting from these proceedings will not be material.

17. DOMESTIC AND INTERNATIONAL OPERATIONS

The Bank considers its Domestic Operations to include all business transacted in Canada, regardless of currency, with the exception of the Canadian-based activities of International Money Markets. This unit's activities, together with the Bank's business carried on outside Canada, comprise International Operations.

While it is not practicable to make a definitive division of its Domestic and International Operations, appropriate allocations are made for (a) the cost of funds related to liquidity and capital computed on the basis of marginal costs of funds and (b) corporate non-interest expenses.

	Domestic		*International*		*Total*	
	1988	*1987*	*1988*	*1987*	*1988*	*1987*
Net interest income – taxable equivalent basis	**$2,642,584**	$2,490,124	**$598,812**	$506,574	**$3,241,396**	$2,996,698
Deduct: Taxable equivalent adjustment*	**58,063**	122,258	**22,588**	29,530	**80,651**	151,788
Net interest income – financial statement basis	**2,584,521**	2,367,866	**576,224**	477,044	**3,160,745**	2,844,910
Provision for loan losses	**320,000**	675,000	**430,000**	225,000	**750,000**	900,000
	2,264,521	1,692,866	**146,224**	252,044	**2,410,745**	1,944,910
Other income	**1,034,862**	799,572	**355,100**	371,173	**1,389,962**	1,170,745
	3,299,383	2,492,438	**501,324**	623,217	**3,800,707**	3,115,655
Non-interest expenses	**2,054,046**	1,819,270	**495,652**	507,865	**2,549,698**	2,327,135
	1,245,337	673,168	**5,672**	115,352	**1,251,009**	788,520
Income taxes	**539,000**	271,500	**(9,000)**	1,500	**530,000**	273,000
	706,337	401,668	**14,672**	113,852	**721,009**	515,520
Minority interest	**4,824**	—	**3,867**	3,206	**8,691**	3,206
Net income**	**$ 701,513**	$ 401,668	**$ 10,805**	$110,646	**$ 712,318**	$ 512,314
Average total assets	**$76,500,000**	$68,600,000	**$27,800,000**	$31,800,000	**$104,300,000**	$100,400,000

**The taxable equivalent adjustment represents a credit to interest income in order to gross up the tax-exempt income earned on certain securities (primarily small business bonds, income debentures and term preferred shares) to an amount which, had it been taxable at a rate of 46.6% in 1988 and 49.8% in 1987, would result in the same after tax net income as appears in the financial statements. The gross up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.*

***Net income in 1987 for International and for Total Bank is before the Special provision for losses on country lending, net of income taxes.*

18. ACQUISITION OF DOMINION SECURITIES LIMITED

On March 31, 1988, the Bank acquired 75% of the voting shares of Dominion Securities Limited (renamed RBC Dominion Securities Limited) for a total purchase consideration of $384,551,000 (comprising $128,246,000 in cash and $256,305,000 in Bank Common Shares) and $5,499,000 of acquisition costs. As part of the agreement, RBC Dominion Securities Limited is purchasing the remaining 25% of its shares over three years at a price equal to 1.5 times the then book value. A new class of shares has been created by RBC Dominion Securities Limited which will permit its employees to purchase at book value up to a 25% equity interest over two years. As at October 31, 1988, the Bank owned 68% of the voting shares of RBC Dominion Securities Limited.

The Statement of Income includes the results of operations of RBC Dominion Securities Limited from the date of acquisition. The excess of the cost of investment over the fair value of net assets acquired (goodwill) is being amortized over 15 years.

The acquisition, which was accounted for using the purchase method, is summarized as follows:

Fair Value of Assets Acquired		
Cash	$ 98,008	
Securities	2,297,075	
Loans	630,242	
Land, buildings and equipment	21,977	
Other assets		
Amounts receivable from brokers, dealers and clients	192,193	
Other	63,635	3,303,130
Less Liabilities Assumed		
Deposits	1,493,766	
Other liabilities		
Obligations related to securities sold short	895,042	
Amounts payable to brokers, dealers and clients	596,798	
Other	69,810	3,055,416
Fair Value of Net Assets		247,714
Minority interest in net assets		(58,241)
Fair Value of Net Assets Acquired by the Bank		189,473
Excess of cost of investment over fair value of net assets acquired (goodwill)		200,577
Total Cost of Investment		$ 390,050

Corporations in which the Bank owns more than 10% of the Voting Shares

Name	*Principal Office Address*	*Carrying Value of Voting Shares owned by the Bank**	*Percent of Voting Shares owned by the Bank*
RBC Dominion Securities Limited	Toronto, Canada	$392,441	68%
RBC Dominion Securities Inc.	Toronto, Canada		68
RBC Dominion Securities (Alberta) Inc.	Calgary, Canada		68
RBC Dominion Securities Investment Management Inc.	Toronto, Canada		68
RBC Dominion Securities Corporation	New York, U.S.A.		68
RBC Dominion Securities Barbados Limited	Bridgetown, Barbados		68
RBC Dominion Securities (London) Limited	London, England		68
RBC Dominion Securities International Limited	London, England		68
RBC Dominion Securities Finance S.A.	Lausanne, Switzerland		68
RBC Dominion Securities Pacific Inc.	Toronto, Canada		68
RBC Dominion Securities (Asia) Limited	Hong Kong		68
Royal Bank Mortgage Corporation	Montreal, Canada	742,720	100
RoyLease Limited	Toronto, Canada	69,933	100
Royal Bank Realty Inc.	Montreal, Canada	1,503	100
Globe Realty Management Limited	Toronto, Canada		100
Royal Bank Export Finance Co. Ltd.	Toronto, Canada	6,027	100
Royal Bank Capital Corporation	Toronto, Canada	5,658	100
UB&S Holdings Limited	Toronto, Canada	6,477	100
Royal Bank Investment Management Inc.	Toronto, Canada		100
Royfund Distributors Ltd.	Toronto, Canada		100
Royal Bank Mutual Fund Services Inc.	Montreal, Canada	50	100
Chargex Ltd.	Montreal, Canada		25
RBC Holdings (USA) Inc.	New York, U.S.A.	177,792	100
The Royal Bank and Trust Company	New York, U.S.A.		100
RBC Holdings (Delaware) Inc.	Wilmington, U.S.A.		100
RBC Systems (USA) Inc.	Jersey City, U.S.A.		100
Royal Bank de Puerto Rico	San Juan, Puerto Rico	45,983	100
RBC Australia Holdings Limited	Sydney, Australia	134,727	100
National Mutual Royal Bank Limited	Melbourne, Australia		50
RBC Australia Finance Limited	Sydney, Australia		50
RoyAust Management Limited	Sydney, Australia		50
Capel Court Corporation Limited	Melbourne, Australia		50
National Mutual Royal Savings Bank Limited	Melbourne, Australia		50
The Royal Bank of Canada (Asia) Limited	Singapore	145,358	100
The Royal Bank of Canada Representacoes S/C Ltda.	São Paulo, Brazil	49	100
Royal Bank (Barbados) Financial Corporation	Bridgetown, Barbados	902	100
R.B.C. Bahamas Limited	Nassau, Bahamas	753,170	100
RBC International Insurance Company Ltd.	Bridgetown, Barbados		100
The Royal Bank of Canada (Bahamas) Limited	Nassau, Bahamas		100
R.B.C. Investments Limited	Nassau, Bahamas		100
Finance Corporation of Bahamas Limited	Nassau, Bahamas		75
The Royal Bank of Canada (Barbados) Limited	Bridgetown, Barbados		100
RoyCan International Banking Limited	Nassau, Bahamas		100

**The carrying value (in thousands of dollars) of voting shares owned 20% or more by the Bank is stated at the Bank's equity in such investments.*

Name	*Principal Office Address*	*Carrying Value of Voting Shares owned by the Bank*	*Percent of Voting Shares owned by the Bank*
Banco Royal do Canada (Brasil) S.A.	São Paulo, Brazil	$ 27,205	100%
Multinational Orion Leasing Holdings N.V.	Amsterdam, Netherlands	970	100
Orion Leasing Singapore Pte. Limited	Singapore		100
RBC Finance B.V.	Amsterdam, Netherlands	421,782	100
The Royal Bank of Canada (France)	Paris, France		100
Royal Canada Gestion S.A.	Paris, France		100
Orion Multinational Services Limited	London, England		100
Orion Multinational Services Inc.	New York, U.S.A.		100
The Royal Bank of Canada (Suisse)	Geneva, Switzerland		100
The Royal Bank of Canada A.G.	Frankfurt, Germany		100
Intercontact GMBH	Düsseldorf, Germany		100
The Royal Bank of Canada (Belgium) S.A.	Brussels, Belgium		100
RBC Holdings (Guernsey) Limited	Guernsey, Channel Islands		100
The Royal Bank of Canada Trust Company (Asia) Limited	Hong Kong		100
The Royal Bank of Canada (Isle of Man) Limited	Douglas, Isle of Man		100
The Royal Bank of Canada (Cayman) Limited	George Town, Grand Cayman		100
The Royal Bank of Canada (Channel Islands) Limited	Guernsey, Channel Islands		100
The Royal Bank of Canada Investment Management (Guernsey) Limited	Guernsey, Channel Islands		100
RBC Offshore Fund Managers Limited	Guernsey, Channel Islands		100
RoyCan Trust Company, S.A.	Geneva, Switzerland		100
InchRoy Credit Corporation Limited	Hong Kong		70
The Royal Bank of Canada Holdings (U.K.) Limited	London, England		100
Libra Bank Limited	London, England		11
The Royal Bank of Canada Trade Finance Limited	London, England		100
RBC Trade Finance Inc.	New York, U.S.A.		100
The Royal Bank of Canada Forfait Finance Limited	London, England		100
The Royal Bank of Canada Trade Credit Limited	London, England		100
Tennant-OFE S.A.	Paris, France		70
RBC Properties (London) Limited	London, England		100
RBC International Limited	London, England		100
Orion Royal Bank Limited	London, England		100
Orion Royal Bank Equities of Canada Limited	London, England		100
Orion Leasing Holdings Limited	London, England		100
Orion Leasing Limited	London, England		100
Orion Factors Limited	London, England		100
Orion Finance Limited	London, England		100
Orion Royal Bank Participations Limited	London, England		100
Orion Royal Bank Asset Management Limited	London, England		100
RBC Trust Managers Limited	London, England		100
RBC Systems Limited	London, England		100

Condensed Financial Statements of Wholly-owned Mortgage, Leasing and Venture Capital Subsidiaries

Royal Bank Mortgage Corporation

Statement of Assets and Liabilities *(in thousands of dollars)*	*October 31, 1988*	*October 31, 1987*
Assets		
Mortgage loans	$16,602,065	$12,624,718
Personal loans	1,066,182	1,202,613
Commercial loans	706,030	579,366
Other investments	2,097,259	1,326,515
The Royal Bank of Canada	90,899	—
	$20,562,435	$15,733,212
Liabilities		
Accrued interest and other liabilities	$ 460,069	$ 335,488
The Royal Bank of Canada	—	1,272,540
Notice deposits	9,668,025	6,467,476
Short-term promissory notes	1,319,592	422,043
Investment certificates		
Due within one year	4,864,780	3,162,122
Due beyond one year	3,443,330	3,443,163
Deferred income taxes	55,919	55,628
Preferred and common stock	74,346	72,356
Contributed surplus	438,454	420,444
Retained earnings	237,920	81,952
	$20,562,435	$15,733,212

Statement of Income *(in thousands of dollars)*	*Year Ended October 31, 1988*	*Year Ended October 31, 1987*
Income		
Interest on mortgage loans	$1,545,092	$ 867,835
Interest on personal loans	132,246	62,292
Interest on commercial loans	75,914	8,262
Interest on other investments	143,854	77,862
	1,897,106	1,016,251
Expenses		
Interest – The Royal Bank of Canada	49,551	58,079
Interest on notice deposits	575,633	138,492
Interest on short-term promissory notes	92,305	49,701
Interest on investment certificates	716,534	581,018
Operating expenses	205,570	113,648
	1,639,593	940,938
Net Income Before Income Taxes	257,513	75,313
Income taxes	100,785	31,024
Net Income	$ 156,728	$ 44,289

RoyLease Limited

Statement of Assets and Liabilities *(in thousands of dollars)*	*October 31, 1988*	*October 31, 1987*
Assets		
Receivable under lease agreements	$850,904	$727,132
Other	3,964	4,212
	$854,868	$731,344
Liabilities		
Accrued interest and other liabilities	$ 39,117	$ 34,752
Short-term promissory notes	137,100	141,524
Long-term debt		
The Royal Bank of Canada	308,497	92,537
Other	200,015	308,204
Deferred income taxes	100,206	89,220
Common stock	21,975	21,975
Retained earnings	47,958	43,132
	$854,868	$731,344

Statement of Income *(in thousands of dollars)*	*Year Ended October 31, 1988*	*Year Ended October 31, 1987*
Income		
Leases	$91,379	$79,064
Expenses		
Interest on short-term promissory notes	11,445	6,893
Interest on long-term debt		
The Royal Bank of Canada	20,254	3,064
Other	27,812	35,977
Operating expenses	4,042	7,026
	63,553	52,960
Net Income Before Income Taxes	27,826	26,104
Income taxes	13,000	12,956
Net Income	$14,826	$13,148

Royal Bank Capital Corporation

Statement of Assets and Liabilities *(in thousands of dollars)*	*October 31, 1988*	*October 31, 1987*
Assets		
Cash and short-term deposits	$ 57	$ 435
Investments	13,461	10,464
Other assets	145	77
	$13,663	$10,976
Liabilities		
Accrued interest and other liabilities	$ 498	$ 311
The Royal Bank of Canada	7,507	3,813
Common stock	5,342	5,342
Retained earnings	316	1,510
	$13,663	$10,976

Statement of Income *(in thousands of dollars)*	*Year Ended October 31, 1988*	*Year Ended October 31, 1987*
Income		
Interest and dividends	$ 477	$ 587
Fees and commissions	898	177
Gain (loss) on investments	(881)	2,591
	494	3,355
Expenses		
Interest – The Royal Bank of Canada	534	456
Operating expenses	924	770
	1,458	1,226
Net Income (Loss) Before Income Taxes	(964)	2,129
Income taxes	230	—
Net Income (Loss)	$(1,194)	$2,129

Directors

as of October 31, 1988

Allan R. Taylor
Toronto
Chairman and Chief Executive Officer
The Royal Bank of Canada

A.H. Michell
Montreal
Vice-Chairman
The Royal Bank of Canada

John E. Cleghorn
Montreal
President
The Royal Bank of Canada

Ian A. Barclay
Vancouver
Associate
McQuaid & Associates Consulting Ltd.

G.H. Blumenauer
Oakville
Chairman of the Board
Otis Canada, Inc.

Robert W. Campbell
Calgary
Chairman
Canadian Pacific Limited

Robert M. Chipman
Winnipeg
Chairman
The Megill-Stephenson Company Limited

Ronald L. Cliff, C.M., C.A.
Vancouver
Chairman
Inland Natural Gas Co. Ltd.

George A. Cohon, C.M., B.Sc., J.D.
Toronto
Chairman, President and Chief Executive Officer
McDonald's Restaurants of Canada Limited

Frank B. Common, Jr., Q.C.
Montreal
Counsel
Ogilvy Renault

Camille A. Dagenais, C.C., LL.D.
Montreal
Director
The SNC Group

Jean-Claude Delorme, Q.C., O.C, O.N.Q.
Montreal
President and Chief Executive Officer
Teleglobe Canada Inc.

Mitzi S. Dobrin, C.M.
Montreal
Chairman and Chief Executive Officer
DBRN Holdings Ltd.

G. Campbell Eaton, O.C., M.C., C.D., LL.D.
St. John's, Nfld.
President
Dublin Ltd.

John R. Evans, C.C., M.D.
Mississauga
Chairman and Chief Executive Officer
Allelix Inc.

Jock K. Finlayson
Montreal
Chairman
Royal Insurance Company of Canada

Rowland C. Frazee, O.C.
Montreal
Retired Chairman
The Royal Bank of Canada

Arden R. Haynes
Toronto
Chairman and Chief Executive Officer
Imperial Oil Limited

Charles H. Knight
Regina
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